[COMMITTEE PRINT]

1987 FEDERAL INCOME TAX GUIDE FOR OLDER AMERICANS

INFORMATION FOR FILING 1986 RETURNS

PREPARED BY THE

SELECT COMMITTEE ON AGING

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

REVISED EDITION

DECEMBER 1986

Comm. Pub. No. 99-603

Printed for the use of the Select Committee on Aging

This document has been printed for informational purposes only. It does not represent either findings or recommendations adopted by this Committee.

U.S. GOVERNMENT PRINTING OFFICE

66-434 O WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H142-14

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FOREWORD

On behalf of the Members of the Select Committee on Aging, U.S. House of Representatives, and as a service to the Members of Congress and their constituents, we are pleased to publish the successful Committee report, the **1987 Federal Income Tax Guide for Older Americans,** again this year.

It is our experience that many older taxpayers are unfamiliar with the special provisions of the Internal Revenue Code which become available to them when they reach age 65. Many find that as they begin the transition from full-time employment to retirement, the manner in which their taxes are calculated changes dramatically because their sources of income are shifting from wages and salary to social security, pension and annuity benefit payments, as well as personal savings and investments.

The 1987 Tax Guide presents, in a concise form, an introduction to basic provisions of the Tax Code benefiting older Americans. It is principally designed to address the needs of older Americans with moderate income. In addition to emphasizing issues directly affecting senior citizens, the Tax Guide also discusses this year's tax forms to better help taxpayers fully understand the entire process. It also identifies numerous Internal Revenue Service publications and prerecorded telephone messages which give more detailed information on the subjects discussed.

At the time this Tax Guide was being prepared the Tax Reform Act of 1986 was enacted. Changes affecting the 1986 tax year have been incorporated; principal highlights for the 1987 tax year are summarized at the end of this document. We would particularly like to thank the Internal Revenue Service for having assisted the preparation of the 1987 Tax Guide.

EDWARD R. ROYBAL
Chairman

MATTHEW J. RINALDO
Ranking Minority Member

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I. WHO MUST FILE

Generally, every person under age 65 who has wages, taxable pensions, interest and other taxable income of $3,560 or more in 1986 ($5,830 for a couple) must file an income tax return regardless of whether any taxes are due. These figures increase to $4,640 for persons age 65 or over ($6,910 for a married couple if one is age 65 or over, $7,990 if both are age 65 or over) or to $4,750 for persons widowed within the last two years who live with a dependent child ($5,830 if age 65 or over).

There are some situations where persons with incomes of less than $3,560 are also required to file tax returns. Three of the most common are:

1. If you are married but live apart from your spouse, or you live together but choose to file separate returns, you must file if you have income of $1,080 or more.
2. If you were self-employed and had a net profit of at least $400 in 1986, you must file in order to pay and be credited for your social security taxes.
3. If your employer paid you in advance for any Earned Income Credit you may be entitled to because you lived with a minor child and expected to have income less than $11,000, you must file a return regardless of your total income.

Even if you are not required to file a tax return, you should do so if you want to claim a refund for any taxes withheld during 1986. If you do not file, you will not get a refund.

II. FILING DEADLINE

The filing deadline for 1987 is midnight, Wednesday April 15. Any return postmarked after April 15 may be subject to tax penalties unless an individual request for an extension of the deadline is filed by that date. All taxes, however, must be paid by April 15 even if you request an extension of time to file your return.

III. WHICH FORM TO USE

There are three forms for filing federal tax returns -- Form 1040EZ, Form 1040A, and Form 1040. If you have filed tax returns in the past, a tax return package, including instructions, should be mailed to you in early January. If you did not receive the proper tax return package, you can

usually find the forms you need at your local public library, post office, or bank. You can also call the local Internal Revenue Service (IRS) office or the toll free number listed in the telephone book to request forms or publications.

Form 1040EZ

Form 1040EZ is for single taxpayers under age 65 who have no dependents and taxable incomes of less than $50,000 from salaries, tips and interest. However, if you receive more than $400 in interest income, you cannot use the 1040EZ. No tax credits or income deductions other than a deduction for cash charitable contributions may be taken on the 1040EZ.

Form 1040A

Form 1040A is primarily for individuals or couples with taxable incomes of less than $50,000 from salaries, tips, interest, dividends, and unemployment compensation. There are three tax credits and three income adjustments which can now be claimed on the 1040A. The three tax credits are for: a portion of child or dependent care expenses; an "earned income credit" for some lower income workers; and a partial credit for contributions to a political party, newsletter, or campaign. The three income adjustments are: a charitable contributions deduction for nonitemizers; the deduction for certain contributions to an Individual Retirement Arrangement; and the deduction for a married couple when both work.

Form 1040

Form 1040 is primarily for people who either have more complex tax situations or who can claim large income tax deductions for such items as mortgage interest, medical expenses, and/or State and local taxes.

IV. ASSISTANCE IN PREPARING FORMS

IRS Publications

The following list of free IRS publications may be particularly helpful to older Americans. They may often be found at public libraries, post offices, and banks. You may

also order these and other publications by using the form on the inside back cover of your tax package or by calling the IRS. A more complete list appears with the order form.

Pub. 17	Your Federal Income Tax
Pub. 524	Credit for the Elderly or for the Permanently and Totally Disabled
Pub. 530	Tax Information for Owners of Homes, Condominiums and Cooperative Apartments
Pub. 553	Highlights of 1986 Tax Changes
Pub. 554	Tax Information for Older Americans
Pub. 575	Pension and Annuity Income
Pub. 907	Tax Information for Handicapped and Disabled Individuals
Pub. 910	Guide to Free Tax Services
Pub. 915	Social Security Benefits and Equivalent Railroad Retirement Benefits

IRS Tax Counseling

The Tax Counseling for the Elderly (TCE) program provides free tax assistance and return preparation to individuals age 60 and over. In addition, Volunteer Income Tax Assistance (VITA) preparers are trained to assist elderly, low-income, handicapped, and non-English-speaking taxpayers. To find the nearest location, call the toll free IRS number for your area listed in your tax form instruction package or the general IRS number listed in the telephone book.

IRS Tele-Tax Recordings

The IRS has approximately 150 pre-recorded tapes that answer most common Federal tax questions. If you have a push-button phone, service is available 24 hours a day, 7 days a week. Rotary (dial) service is available Monday through Friday during business hours. Long distance charges may apply if you call from outside the local dialing area. You should have pencil and paper ready to take notes. The following is a partial list of Tele-Tax tapes which are of particular interest to older Americans.

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Tape Number

100 --	IRS help available
101 --	Tax assistance for handicapped individuals and the deaf
110 --	Who must file ?
112 --	When, where, and how to file
119 --	Exemptions for age and blindness
139 --	Pensions and annuities
209 --	Social security and tier I railroad retirement taxability
210 --	Social Security Benefit Statement: Form SSA-1099
218 --	Individual retirement arrangements (IRAs)
227 --	Should I itemize ?
306 --	Child care credit
308 --	Residential energy credit
309 --	Credit for the elderly or for the permanently and totally disabled
315 --	Highlights of 1986 tax changes
328 --	Tax benefits for low income Americans
337 --	Checklist/Common errors when preparing your tax return
338 --	Withholding on pensions and annuities
400 --	Sale of personal residence: Exclusion of gain, age 55 and over

You can find the Tele-Tax telephone number for your area and a more complete listing of tapes toward the back of your tax instruction booklet.

Private Tax Return Preparers

You are responsible for the accuracy of every item entered on your return. If you pay someone to prepare the return for you and there is a mistake, the IRS will ask you, and not the preparer, to pay any back taxes or penalties. Therefore, you should be careful to choose someone who understands tax matters and who will prepare a complete and accurate return.

The law requires a paid preparer to sign the return and to complete the Paid Preparers Use Only section at the bottom of the form, just below your signature. You should also know how to locate this person in the future if the IRS has a question about your return.

V. SOCIAL SECURITY AND RAILROAD RETIREMENT TAXABILITY

Approximately one in ten social security recipients will owe income taxes on a portion of the benefits they received in 1986. Also, many of the more than one million persons receiving railroad retirement benefits will be required to include a greater portion of their benefits in taxable income this year.

Since income taxes are not withheld from monthly social security checks and underwithholding may subject you to a penalty, you may want to have tax withholding increased from your other income if you expect to owe taxes on the benefits you received in 1986. Railroad retirees may elect to have income taxes withheld from their benefits. Alternatively, you may prefer to make quarterly estimated tax payments directly to IRS. See the section titled "Estimated Tax and Withholding" below.

Taxation of Social Security Benefits

Generally, you will owe taxes on some (but never more than half) of your social security benefits if your total income minus half of your social security benefits exceeds a threshold of $25,000 for singles and married persons who lived apart all year and do not file jointly, and $32,000 for married couples filing jointly. Married couples who lived together but file separate returns must include part of their benefits in taxable income regardless of the amount of other income.

The Social Security Administration (SSA) is required to send every beneficiary a statement (Form SSA-1099) showing the total amount of benefits received in 1986. If you do not receive an SSA-1099 by early February or you believe the statement to be incorrect, you can call your local SSA office, or for pre-recorded information on your Form SSA-1099 call either the toll free "900" number printed on your SSA-1099 or IRS Tele-Tax tape number 210.

To determine quickly whether you may owe taxes on a portion of your benefits, add up all of your income from all sources, including any tax-exempt interest you may have received. If the total of all your income is less than $25,000 ($32,000 for married couples filing jointly) then you can be sure that none of your social security benefits are taxable

unless you are married but live separately. For example, a single retiree with $4,800 from a private pension, $6,000 in part-time wages, $2,400 in interest on savings, $1,000 in interest on municipal bonds and $7,200 from social security benefits has a total income of $21,400. Since this person's total income from all sources is less than $25,000, she can be sure that none of her social security benefits are taxable.

If the total of all your income from all sources exceeds $25,000 ($32,000 for married couples filing jointly), you need to check further to determine how much, if any, of your benefits will be subject to tax. One group particularly likely to owe additional taxes on their benefits is couples with one retired spouse and one spouse working. Married couples who live together but file separate returns will usually pay more taxes than if they filed jointly.

Generally, the actual amount of benefits subject to tax is the lesser of one-half of your benefits or one-half of the amount by which all of your non-social security income (modified adjusted gross income) plus one-half of your social security benefits exceeds $25,000 ($32,000 for married couples filing jointly). IRS has a worksheet for calculating the amount of benefits subject to tax on page 11 of the Form 1040 instruction booklet. For more complete information, see IRS Publication 915, "Social Security Benefits and Equivalent Railroad Retirement Benefits" or call Tele-Tax tape 209, "Social security and tier I railroad retirement taxability."

Taxation of Railroad Retirement Benefits

A railroad retirement benefit is comprised of up to four different parts. Prior to 1984, only the supplemental annuity was taxable. Beginning in 1984, the other three parts became taxable but each in a different way. Only the social security equivalent portion of tier I benefits is taxed in the same manner as social security benefits. Tier II benefits and the non-social security equivalent portion of tier I benefits are fully taxable after they exceed the retirement contributions which were deducted from earning during the worker's career. Vested dual benefits, like the supplemental annuity, are fully taxable.

By January 31 the Railroad Retirement Board will send each beneficiary a Form RRB-1099 documenting the amount of equivalent tier I benefits, a Form RRB-W-2P covering the other parts, and a worksheet to help determine

whether benefits are taxable. If you receive both railroad retirement and social security benefits, you should use the railroad retirement worksheet. More complete information can be found in IRS Publication 575, "Pension and Annuity Income."

VI. TAX FORM PREPARATION

This section describes the major sections of the 1040A and 1040 tax forms. Each item is discussed in the order that it appears on the forms. The tax form, line numbers, and relevant IRS pamphlets and Tele-Tax recordings are shown for each item.

Filing Status

Form 1040A, Lines 1-4; Form 1040, Lines 1-5
IRS Publication 17, "Your Federal Income Tax", Chapter 2
Tele-Tax Tapes 114 to 118

There are five different filing statuses: single, married filing jointly, qualifying widow(er); married filing separately; and head of household. Special provisions for qualifying widow(er)s and heads of households allow some single persons to pay taxes at rates lower than those used by other unmarried taxpayers.

Generally, you are single if you were never married or were divorced or legally separated as of December 31. If you were married by December 31, or if your spouse died in 1986 and you did not remarry before December 31, the IRS considers you to be married. Most married persons pay less by filing joint returns; however, you may elect to file separate returns.

Qualifying Widow(er). If your spouse died in 1984 or 1985 and you remained unmarried in 1986, you may be able to continue to pay taxes at the lesser married filing jointly tax rates if (1) your dependent child lived with you, (2) you paid more than one-half of the costs of maintaining your home during all of 1986, and (3) you were entitled to file a joint return with your spouse for the year your spouse died. If you meet all the requirements to file as a qualifying widow(er) you must use Form 1040. If you do not qualify because your spouse died prior to 1984, you may still be able to file as a head of household.

Head of Household. If you were unmarried or considered unmarried as of December 31, 1986, and you provided over half the cost of maintaining a home (that was the principal residence) for yourself and your unmarried child (regardless of his/her age or whether he/she was financially dependent on you) you may be eligible to pay taxes at the lower head of household rates. You may also be able to file as head of household if you are entitled to claim as dependents other relatives such as your mother or father, married child, brother or aunt.

Exemptions

Form 1040A, lines 5a-5f & 18; Form 1040, lines 6a-6f & 36
IRS Publication 501, "Exemptions"
Tele-Tax Tapes 119 to 122

You can reduce your adjusted gross income by $1,080 for each exemption you are entitled to claim. Generally you can claim exemptions for yourself, your spouse, your minor children and any other dependent relative or member of your household who has less than $1,080 in non-social security income subject to federal income taxes. If you are age 65 or older on January 1, 1987, you can claim an extra $1,080 exemption for 1986. You are also allowed an additional exemption if you are legally blind.

Letting Someone Else Claim Your Exemption. If you had less than $1,080 in wages, dividends, interest or other non-social security income subject to federal income taxes, it may be possible for a relative or an unrelated person living with you to claim your $1,080 exemption on his/her return. However, this taxpayer cannot claim the age and blindness exemptions if they apply to you. Since you would not owe any taxes, and your exemption would reduce this taxpayer's tax bill by hundreds of dollars, this is one tax benefit you can give this relative or other taxpayer.

In order to claim your exemption, your child or other individual must have provided you, either in cash or in food, shelter, or other non-cash items, with more than one-half of your support for the year. If more than one-half of your support is not provided by any one person, but by two or more relatives or people living with you, then one of them -- but only one -- may be able to claim your exemption as long as he/she contributed more than ten percent of your support. The taxpayer who claims your exemption must

include statements (Form 2120) from all the other contributors who provided more than ten percent of your support saying they will not claim you as an exemption this year. These people can, if they wish, then agree among themselves to let a different contributor claim you as an exemption in future tax years.

Total Income

Form 1040A, Lines 6-10; Form 1040, Lines 7-23
IRS Publication 525, "Taxable and Nontaxable Income"
Tele-Tax Tapes 130 to 207 & 209

Almost every employer or institution which pays you income is required, by January 31, to send you a Form W2 or a Form 1099 telling you how much they paid you in 1986. However, even if you were not notified, it is still your responsibility to list all taxable income.

Forms 1040A and 1040 have specific entry lines for wages, salaries, tips, interest income, dividends and unemployment compensation. The 1040 also includes space for other types of taxable income such as pensions and annuities, rent, royalties and profits from self-employment, and taxable social security benefits. Some of the important non-salary income sources for Older Americans and their tax status are listed below:

Tax-Free Income. (Tele-Tax Tape 208) Gifts and inheritances you receive are not taxable to you; the person making the gift/bequest already paid taxes, if any, on the income used to purchase the gift/build the estate. However, if you later receive income such as interest, dividends, or rents from such property, that income is taxable to you. Veterans Administration payments and/or insurance proceeds are not normally taxable. Life Insurance proceeds paid at the death of the insured are usually tax free.

Generally Taxable Income. Dividend and interest income is generally taxable. However, interest earned on notes or bonds issued by a State or local government is not taxable and there is a $100 ($200 for married couples) exclusion for dividends. (Tele-Tax Tapes 132, 133.) If you fail to provide the payer of interest and dividends with your correct Social Security number or you do not include all of this income on your return, the IRS can require the payer to withhold twenty percent of future interest and dividend income as payment for taxes due. (Tele-Tax Tape 335.)

Social security benefits are tax free for most beneficiaries. However, approximately one in ten social security beneficiaries will be required to pay income taxes on part of the benefits they received in 1986. For a more detailed discussion of the taxation of social security benefits, see section "Social Security and Railroad Retirement Taxability" above.

Special rules apply to the sale of a principal home by persons age 55 or older. If either you or your spouse were age 55 or older on the date of the sale, and (1) you owned and lived in the house for at least three years of the five-year period ending on the date of the sale, and (2) you or your spouse have never excluded gain on the sale or exchange of a home after July 26, 1978, then you may elect to completely exclude up to $125,000 of the profit from taxable income regardless of whether you buy another home. You can only use the age 55 exclusion one time regardless of how much profit you realize. If your spouse has already taken the exclusion, even if it was prior to your marriage, neither of you can claim another exclusion unless the original exclusion was revoked within three years.

Profits from the sale of a principal home may be taxed at lower capital gain tax rates. If you purchase and live in another home that costs at least as much as the adjusted sale price of the old home within two years before or two years after the sale, your entire gain on the sale is not taxed at the time of the sale or exchange. It is not necessary to use the profit from the sale of the first home as a down payment on the second home in order to postpone the tax on the gain from the sale.

If you sell your home and purchase another home for an amount less than the home you sold, you should carefully consider whether it will be more advantageous to use the exclusion now or when you sell the second home. If the gain on the first home is partially tax deferred due to the purchase of the second home, it might be better to wait. However if the purchase price of the second home is much less than the selling price of the first, you may not be able to defer much of your gain. Therefore, you might be better off to take the exclusion when you sell the first home. (See IRS Publication 523 "Tax Information on Selling Your Home" and/or call Tele-Tax Tapes 343, 344 and 400.)

Employer pensions or annuities are taxable except for the amount, if any, representing a return of contributions that were taxable to the employee during his/her working

years. If he/she receives a lump sum payment, part of it may be subject to lower capital gain tax rates and the remainder treated as if it had been paid over a 10 year period. (See IRS Publication 575 "Pension and Annuity Income" and/or call Tele-Tax Tapes 139 to 141.)

Distributions from an IRA, whether from principal or earnings, are fully taxable when received. A 10 percent tax surcharge applies to any distribution prior to age 59 1/2 except in cases of disability or death. Minimum distributions must begin by April 1 of the calendar year following the year in which you reach age 70 1/2 to avoid substantial tax penalties.

Unemployment insurance benefits may be taxable if your adjusted gross income plus your benefits exceed $12,000 ($18,000 for a married couple). (See IRS Publication 905, "Tax Information on Unemployment Compensation" and/or call Tele-Tax Tape 204.)

Adjusted Gross Income

Form 1040A, lines 11-14; Form 1040, lines 24-32
Tele-Tax Tapes 211 to 219

Once you have determined your total income, you may "adjust" that income downward with any of seven major adjustments.

Individual Retirement Arrangements (IRAs). Every working individual under age 70 1/2, whether or not covered by any other pension, may contribute up to the lesser of 100 percent of compensation or $2,000 to an IRA. You can deduct the amount contributed from your 1986 income as long as you make the contributions on or before April 15, 1987, even if you file your return earlier. You pay no taxes on either principal contributed or earnings until you withdraw the funds. Even if only one member of a married couple works for income, up to $2,250 may be contributed to two IRAs. You can divide the contribution between the two accounts in any way except that neither can be credited with more than $2000. (See IRS publication 590, "Individual Retirement Arrangements (IRAs)" and/or call Tele-Tax Tape 218.)

Other Adjustments. Contributions to an IRA can be deducted on either Form 1040A or Form 1040. All other adjustments must be claimed on the Form 1040. These other adjustments include: unreimbursed moving and work-

related expenses by employees; contributions to a Keogh Retirement Plan by self-employed persons; penalties paid due to premature withdrawal of funds from your time savings deposits; and alimony payments.

Charitable Deduction

Form 1040A, line 16; Form 1040, line 34b-d
IRS Publication 526 "Charitable Contributions"
Tele-Tax Tape 211

For 1986, every taxpayer who contributes cash or property to charity, or who incurs out-of-pocket expenses when doing volunteer work for a charitable or religious organization, may generally deduct 100 percent of their contributions (up to 50% of adjusted gross income), even if they do not itemize their deductions. However, both methods of deducting contributions should be considered if you made large charitable contributions in 1986.

Itemized Deductions

Form 1040 only, Line 34a and Schedule A
Tele-Tax Tape 227, "Should I Itemize ?"

A standard income tax deduction, called a "zero bracket amount", is already figured into the tax tables from which you will determine your tax bill. The zero bracket amount is $2,480 for single persons and those filing as head of household, $3,760 for joint returns and for qualifying widow(er)s, and $1,835 for married persons filing separately. You can further reduce your taxes if you can itemize, or list, deductible expenses which exceed your zero bracket amount. If you itemize deductions, you must use Form 1040.

To determine whether itemizing deductions is worthwhile for you, add together any 1986 expenses you had in the following major areas of deductibility:

- medical and dental expenses;
- income, sales and property taxes paid to state and local governments;
- interest paid on home mortgages, automobile loans, and other credit accounts; and
- contributions to religious and charitable organizations

If your total exceeds, or even approximates, $2,480 ($3,670

for couples filing jointly), you should fully review the Form 1040 instruction package to investigate how much, if any, your itemized deductions exceed your zero bracket amount.

You will find there are several deductible miscellaneous items in addition to the major categories listed above. They range from union and professional dues, to casualty and theft losses, to tax return preparation fees. You will also find that you can deduct medical expenses, including insurance premiums, only to the extent they exceed five percent of your adjusted gross income.

The Tele-Tax tape list toward the back of your instruction booklet includes eleven pre-recorded tapes (numbers 227 to 238) on itemized deductions. In addition, the free publication list and order form on the back cover of your tax package contain reference to a number of publications on specific deductible expenses.

Tax Computation

Form 1040A, lines 19-20; Form 1040, line 37-40
Tele-Tax Tapes 240, 243 and 244

Once you have claimed all your adjustments, exemptions, and deductions you are left with a figure called "taxable income" from which you determine how much tax you owe. To find your tax, locate your taxable income in the tax tables in the back of your tax instruction booklet and match it with the column showing your filing status. For instance, if you have $20,000 in taxable income and your filing status is head of household, you find the line for taxable incomes of at least $20,000 but less than $20,050 and look under the column labeled "head of household" to find that your tax is $2,827.

If your income in 1986 was more than forty percent greater than it averaged over the previous three years, you may be able to reduce your taxes by "income averaging". This may be helpful for recent retirees who receive large lump sum payments upon retirement. (See IRS Publication 506 "Income Averaging" and/or call Tele-Tax Tape 244.)

Tax Credits

Form 1040A, Lines 21-23 and 24b;
Form 1040, Lines 41-49, 58, 61-63
Tele-Tax Tapes 306 to 312

Tax credits directly reduce the amount of tax you owe. The Partial Credit for Political Contributions, the Earned Income Credit, and the Credit for Child and Dependent Care Expenses may be claimed on either Form 1040A or Form 1040. The Credit for the Elderly or for the Permanently and Totally Disabled, and all other credits must be taken on Form 1040.

Credit for the Elderly or for the Permanently and Totally Disabled. This credit may reduce your taxes by as much as $750 ($1,125 if married) if you are at least age 65 or if you are under 65 but retired due to permanent and total disability and you receive a taxable disability pension. These maximum credits are reduced if you receive social security or tier I railroad retirement benefits that are not taxed, veterans benefits and/or your adjusted gross income exceeds $7,500 ($10,000 for a married couple). Generally, you are not eligible for any credit if your monthly benefits exceed $417 a month ($625 for a couple) or your adjusted gross income exceeds $17,500 ($25,000 if married). For more information see the instructions for Schedule R of Form 1040. (See also IRS Publication 524, "Credit for the Elderly or for the Permanently and Totally Disabled" and/or call Tele-Tax Tape 309.)

Credit for Dependent Care Expenses. If you paid someone to care for your disabled spouse, your child under age 15, or your disabled dependent so you could work or look for work, you may be able to claim a tax credit of up to $720 ($1,440 for two or more dependents). The amount of the credit ranges from a maximum of 30 percent of expenses for taxpayers with adjusted gross incomes of up to $10,000, to a minimum of 20 percent for taxpayers with adjusted gross incomes above $28,000. The maximum amount of expenses used to compute the credit is $2,400 ($4,800 for two or more dependents). (See IRS Publication 503 "Child and Dependent Care Credit and Employment Taxes for Household Employers" and/or call Tele-Tax Tape 306.)

Earned Income Credit. If you worked and had earnings and adjusted gross income that were less than $11,000, and you had a dependent child who lived with you, you may be able to claim an earned income credit. Your filing status must be married filing jointly, or qualifying widow(er) or head of household. The highest the earned income credit may be is $550. Income over $6,500 reduces the amount of the credit. The earned income credit, unlike

other credits, can be paid to you as a "refund" even if you do not owe any taxes. Your employer can even pay you in advance for this credit. (See IRS Publication 596, "Earned Income Credit" and/or call Tele-Tax tape 307.)

Other Taxes

Form 1040 only, lines 50-55

In addition to your regular income taxes, you could owe additional taxes in any of the other tax categories listed on the Form 1040. The two categories of most importance to older Americans are: (1) social security taxes due on the profits from self-employment; and (2) surcharge taxes on IRA funds withdrawn before age 59-1/2 or the failure to begin withdrawals by April 1 of the calendar year following the year in which you reach age 70-1/2. The other taxes are on tip income, the alternative minimum tax applicable to high income persons with large deductions and a recapture of previous investment credits.

Refund/Amount You Owe

Form 1040A, lines 23-27; Form 1040, lines 56-67

Once you have determined your final tax liability by subtracting out all your credits and adding in any other taxes, you have only one more step -- to determine whether you owe the government or the government owes you. If the amount of your withholding and estimated tax payments plus any other payments exceed your tax liability, you are due a refund. If not, you should attach a check or money order for the total amount of the taxes you owe.

VII. PREPARING FOR NEXT YEAR

Estimated Tax and Withholding

IRS Publication 505, "Tax Withholding and Estimated Tax"
Tele-Tax Tapes 126 and 408

The federal income tax system operates on a pay-as-you-go basis. Typically, taxes are withheld from wages, salaries and other forms of compensation including some retirement payments. If taxes are not withheld you are

probably required to make quarterly payments to meet your estimated tax liability. Some examples of income from which income tax is not generally withheld are: interest and dividends; self-employment; alimony; rental income; capital gains; and the taxable portion of social security benefits.

Estimated Tax Requirements. If you expect that the "Amount You Owe" on your 1987 tax return will be $500 or more, and you expect the amount of income tax withheld in 1987 will be less than 90 percent of the tax to be shown on your 1987 tax return and less than your 1986 return, you should make estimated tax payments on or before April 15, June 15, September 15, and January 15.

To calculate your estimated tax, add together your expected income tax, alternative minimum tax, and any social security self-employment tax. Next subtract anticipated income tax withholdings and tax credits. If you have income from which taxes are withheld and other income from which no taxes are withheld, you may be able to increase the withholdings on the first income and eliminate the need to make quarterly payments. If your estimated payments and withholdings total less than 90 percent of your tax liability you may incur a penalty for underpayment of taxes. No penalty is assessed, however, if the taxes you pay during 1987 equal or exceed your total tax liability for 1986.

Withholding On Pensions And Annuities. Income taxes will generally be withheld from the taxable part of most pension and annuity payments you receive. If you receive such payments and failed to give the payer your current marital status and the number of exemptions you can claim, taxes generally will be withheld as if you were married with three exemptions. Therefore, if you are single, too little tax will be withheld and you could owe additional taxes and possibly be subject to penalties. On the other hand, if you have several dependents and/or itemize deductions, you may be paying more tax than necessary. Although you can get a refund for your excess withholdings, the government generally does not pay you any interest on the money it holds.

Use Form W-4P to inform your pension or annuity payer of the proper number of exemptions you can claim. You can even tell the payer not to deduct any taxes at all. However, it is then up to you to make estimated tax payments or to increase the amount of withholdings on other income to meet your tax obligations, if any.

Highlights for 1987

IRS Publication 553, "Highlights of 1986 Tax Changes"

The Tax Reform Act of 1986 made many changes to the tax law which will affect the 1987 tax year. Some of the major changes are as follows:

Tax Rates. A new rate structure providing for five brackets replaces the present structure of up to 15 brackets: 11%, 15%, 28%, 35% and 38.5%.

Exemptions. The personal exemption amount is increased to $1,900 for 1987, but the extra personal exemptions allowed for taxpayers who are age 65 or older, or blind, has been eliminated (but see "Standard Deduction" below).

Standard Deduction. The "zero bracket amount" has been replaced by a standard deduction. For 1987 the basic standard deduction is $3,760 for Married Filing Jointly and Qualifying Widow(er), $2,540 for Single and Head of Household, and $1,880 for Married Filing Separately; however, if you are age 65 or older or blind, your basic standard deduction for 1987 is $5,000 for Married Filing Jointly and Qualifying Widow(er), $3,000 for Single, $4,400 for Head of Household, and $2,500 for Married Filing Separately.

An additional standard deduction of $600 is allowed for an individual who is age 65 or older or blind ($1,200 if both elderly and blind) and who is married -- whether filing jointly or separately, or as a surviving spouse. The additional standard deduction is $750 for an unmarried individual or one filing as head of household who is age 65 or older or blind ($1,500 if both elderly and blind).

Filing Requirements. The amount of gross income you may receive before you are required to file a return has increased and is as follows:

Single:	
under age 65 and not blind	$4,440
under age 65 and blind	$4,900
age 65 or older	$5,650
Married Filing Joint Return:	
both spouses under age 65, neither blind	$7,560

(Married Filing Joint Return, cont'd)	
both spouses under age 65, one or both blind	$8,800
one spouse age 65 or older	$9,400
both spouses age 65 or older	$10,000
Married filing Separate Return:	$1,900
Head of Household:	
under age 65 and not blind	$4,440
under age 65 and blind	$6,300
age 65 or older	$7,050
Qualifying Widow(er):	
under age 65 and not blind	$5,660
under age 65 and blind	$6,900
age 65 or older	$7,500

Charitable Contributions. For 1987, no deduction is provided for charitable contributions by nonitemizers

For further information regarding changes for tax year 1987, see Publication 553, "Highlights of 1986 Tax Changes."

VIII. GIFT AND ESTATE TAXES

Any cash or property you receive as a gift or inheritance is generally free. Likewise, any gift or inheritance you pass on is tax-free to the recipient. Generally, if you make a gift of more than $10,000 to any one individual in the same year, you -- but not the recipient -- may be required to pay a gift tax.

For deaths occurring during 1986, no federal estate tax, nor any estate tax return, is due if the value of the decedent's estate is $500,000 or less. This amount increases to $600,000 in 1987 and $700,000 thereafter.